

UPDATE

1. IDB will add further environmental and social requirements to those which it has proposed for the Upstream project. Failure by the Upstream sponsors to adequately perform these requirements will result in a default under the IDB loan to TGP. Annex A contains the list of 25 additional environmental and social requirements for the Upstream project.
2. In addition to the numerous environmental, social and health and safety requirements already proposed by IDB Management, described in Section 8 of the Camisea Project Environmental and Social Impact Report (ESIR) the following additional environmental and social requirements are proposed.
3. IDB Management will provide reports to the IDB Board of Executive Directors summarizing the performance of TGP, Pluspetrol, and the Government of Peru (GOP) pertaining to their respective environmental and social commitments. These reports will be provided at the following project milestones:
 - (a) signing of the Loan Agreement between the IDB and TGP;
 - (b) upon disbursement of funds under the Loan Agreement between the IDB and TGP;
 - (c) at Project Completion of the Downstream Component; and
 - (d) annually thereafter starting the year after Project Completion of the Downstream Component for the duration of the Loan Agreement between the IDB and TGP.
4. These reports will be made available to the public, excluding any information deemed confidential as defined in the IDB's Policy on Disclosure of Information (OP-102). IDB Management will notify the Board of Executive Directors of any waiver related to environmental and social matters under the IDB-TGP Loan Agreement.
5. As a requirement for financial closure of the Downstream Component, the IDB must:
 - (a) Establish specific criteria to evaluate the performance of TGP and Pluspetrol regarding erosion control, access control, bio-diversity monitoring and re-vegetation, and these criteria shall be reviewed and accepted by an expert working group that will include at least two representatives with technical expertise nominated by local Peruvian NGOs that are acceptable to the IDB and the criteria will be issued within Peru for a public comment period of two weeks;
 - (b) Establish estimated time frames and conditions for both Technical and Project Completion of the Downstream Component with respect to erosion control, access control, biodiversity monitoring, and re-vegetation, and criteria for satisfactory performance on erosion control and re-vegetation;
 - (c) Receive in form and substance satisfactory to the IDB evidence of implementation of the actions necessary to strengthen the monitoring (supervision) systems of all parties (GoP and consortia) for the environmental and social aspects of the Camisea Project, based upon consultations with project-affected communities and applicable local civil society organizations, including, for example, improvements in coordination among monitors, making monitoring/supervision reports accessible to communities, GOP's assuming responsibility for community monitoring program, and establishing systematic and transparent procedures for addressing noncompliance events and complaints by project-affected people;
 - (d) In relation to the proposed Camisea Fund, to assist in local economic, environmental and social development in areas of influence of the Camisea

Project, receive in form and substance satisfactory to the IDB, documentation on the design of the fund including the funding mechanism, administrative support, funding criteria and levels of support to be committed by the parties to the fund, and to the extent deemed appropriate, and based upon input from fund stakeholders, the establishment of two separate funds or windows, one for community development and one for conservation projects;

- (e) In relation to the Upstream Component, receive in form and substance satisfactory to the IDB, the environmental monitoring plans for the Fractionation Plant and Marine Terminal; such plans shall have been reviewed by an independent expert working group acceptable to the IDB;
- (f) In relation to the Upstream Component, receive in form and substance satisfactory to the IDB, documentation confirming Pluspetrol providing an additional contribution, beyond that which Pluspetrol has already committed as of August 2003, toward financing part of the capital cost to reduce the pollution in the bay, such as installation of wastewater treatment for fish meal plants.

6. The GOP's Letter of Commitment (LoC) to the IDB, which is a condition for financial closure of the Downstream Component, should address all items in the IDB ESIR (see paragraph 8.18) and the following:

- (a) Request a loan from the IDB to finance the capital costs for wastewater treatment from the municipalities of Pisco, Paracas, and San Andres;
- (b) Expedite the process of applying PAMA (Programa de Adecuación y Manejo Ambiental) procedures to the fish meal plants in a manner consistent with Peruvian law;
- (c) Provide the necessary funding for the administration and operation of the multi-stakeholder system related to the strategic regional development and management for the Paracas Bay;
- (d) Implement the necessary policy and legal changes that will require all future hydrocarbon concessions with output flowing through the Camisea pipeline to conform to internationally-recognized environmental and social safeguards and standards, such as those of the International Finance Corporation, regardless of whether they receive official public finance;
- (e) Implementation of institutional and legal mechanisms to actively prevent and remove illegal occupants in the Lower Urubamba due to the Camisea Project, according to Peruvian law, and clarify the legal and enforcement authority;
- (f) Development of the capacity of communities that are asked to exercise migration control along the Camisea pipeline in their territory, consistent with the communities' established obligations for migration control; and
- (g) Review and, as appropriate, recommend modifications of the existing Pluspetrol and TGP procedures related to compensation and associated dispute resolution such that these procedures are transparent and consistent, the GOP review shall include input from the applicable project affected communities, the national and project ombudsman, and indigenous federations, and these procedures shall be made available to the applicable project affected communities, and these modified procedures will serve as a minimum to be applied to any future gas development using the Camisea pipeline.

7. The LoC will include an action plan with milestones and completion dates with those measures pertaining to the construction phase of the project to be completed prior to the completion date for the project. Measures pertaining to the operational phase will have the relevant

mechanisms established and functioning at the completion date of the project. The milestones will include: (a) completion of the GOP review of the existing Pluspetrol procedures related to compensation and associated dispute resolution by January 1, 2004; and (b) milestones related to the Upstream Component in terms of the development of criteria and mechanisms for compensating inhabitants of the Nahua-Kugapakori Reserve, and some definition for the San Martin 1 and 3 wells prior to any construction activities.

Annex A
ENVIRONMENTAL AND SOCIAL RECOMMENDATIONS FOR THE UPSTREAM
COMPONENT OF THE CAMISEA PROJECT

1. For on-going or completed construction, Pluspetrol shall prepare a report demonstrating the effectiveness of the erosion and sedimentation control measures along all of the flowlines within Block 88 and links to Las Malvinas, with attention to areas having slope instability and loss of soil. (Prior to financial close)
2. Pluspetrol shall initiate and fund a monitoring program, satisfactory to the Inter-American Development Bank of waterways (major streams) affected by the sedimentation. A report indicating parameters, biodiversity indices, and aquatic life must be submitted followed by periodic reporting of results. (Prior to financial close and on-going thereafter)
3. Pluspetrol shall provide evidence, satisfactory to the Inter-American Development Bank, that all areas where construction is completed are being effectively re-vegetated and reclaimed with species native to the location and that such recovery will be monitored for an extended period under a precise plan of action until these areas are stabilized. (Prior to financial close)
4. Pluspetrol shall take measures, satisfactory to the Inter-American Development Bank, to minimize the flowline right-of-way to a width and area required only for periodic inspection activities, including the removal of all access structures such as the Camisea Bridge, as soon as possible. No other such crossings will be permitted without prior environmental evaluation by the Inter-American Development Bank and the participation of affected communities. Natural or structural barriers should be placed to avoid further intrusion in the N-K Reserve. (60 days following project operation)
5. The Inter-American Development Bank shall receive the final compensation plan for native and indigenous populations directly and indirectly affected by completed and on-going construction at SM-1, SM-3 and Block 88 flowlines. (Prior to financial close)
6. Pluspetrol shall submit updates to existing Environmental and Social Management Plans, to take into account findings from recent assessments, such as, but not limited to, the ethnic RSA and Health surveys. (Prior to financial close)
7. Pluspetrol shall submit, in a report format, the results of a topographic survey for the right-of-way extension of the flowlines & access road from SM-1 to SM-3. (Prior to financial close and no later than 60 days prior to construction of CR-1 and CR-3 wells, flowlines and access roads).
8. Pluspetrol shall provide a detailed report on biodiversity baseline conditions ahead of altering existing ecosystems. (Prior to financial close for SM-1 and SM-3 areas and no later than 60 days prior to construction start at CR-1 and CR-3 areas)
9. Pluspetrol shall prepare and submit to the Inter-American Development Bank a specific approach on monitoring biodiversity during construction, operation and closure phases. The approach will include contingency and recovery plans in the event of biodiversity decline. (Prior to disbursement)
10. Pluspetrol shall provide the Inter-American Development Bank with regular environmental performance reports (quarterly during construction and semi-annually during operations) demonstrating compliance with emission and effluent levels for all major pollution discharge point sources within the project as set forth in Tables 3-2 and 3-4 of the Inter-American Development Bank's ESIR. (Prior to financial close for completed/on-going construction)
11. Pluspetrol shall prepare and submit a comprehensive Environmental and Social Management Plan (ESMP) for all activities within and surrounding Block 88, including

- Las Malvinas. Such plan will take into account baseline data, and include mitigation and monitoring plans in sufficient detail. In addition, Pluspetrol shall submit a spill contingency plan, satisfactory to the Inter-American Development Bank, that addresses Block 88 and the flowlines to Las Malvinas. (60 days prior to project operation)
12. Pluspetrol shall submit to the Inter-American Development Bank, an updated Waste Management Plan for the entire Upstream Project. (60 days prior to project operation)
 13. Pluspetrol shall submit a report detailing and explaining the array of mechanisms used to monitor its own activities, including those of its contractors, with an explanation of its non-compliance reporting system and methods for remediation when required. (Prior to financial close)
 14. With respect to the coastal facility at Loberia Beach, Pluspetrol shall submit a full baseline reconnaissance, further impact assessment, and a revised ESMP, satisfactory to the Inter-American Development Bank, to include the monitoring of biodiversity. Prior to its submission to the Inter-American Development Bank, the ESMP shall be reviewed by an independent expert group acceptable to the Inter-American Development Bank. The ESMP shall address the facility construction and operation that takes into account the results of the baseline reconnaissance. Such report shall cover the Project's direct area of impact and extend to Paracas Bay and the Paracas Reserve and islands. In addition, the report shall demonstrate that Pluspetrol will employ best environmental practices in the construction and installation of the pipeline system linking the fractionation plant and the marine terminal so as to minimize the disruption of sedimentation and other environmental impacts during construction and subsequent maintenance activities. Pluspetrol shall provide evidence that the measures set forth in the ESMP are being fully implemented. (Prior to financial close for the construction portion and 60 days prior to operations for the ESMP)
 15. Pluspetrol shall prepare and submit a comprehensive Contingency Plan, satisfactory to the Inter-American Development Bank, addressing the project's response to leaks and spills during its construction and operation phases. The Plan will be area-specific (jungle versus coastal operations) and function-specific (fractionation versus terminal on the coast). It will also provide evidence, satisfactory to the Inter-American Development Bank, that best available technologies are employed in the design and construction of the facilities to detect and minimize the occurrence of any leaks or spills, and that the measures recommended in the Plan will be fully implemented. (Prior to first disbursement)
 16. Pluspetrol shall prepare a traffic study, satisfactory to the Inter-American Development Bank of the impacts on the Paracas Area due to air emissions, traffic flow, potential accidents, and potential release of hazardous substances. (60 days prior to project operations)
 17. Pluspetrol shall cooperate with and participate actively in activities sponsored by the Government of Peru to rehabilitate the Paracas Bay and surrounding areas.
 18. Pluspetrol shall comply with host country regulations, contractual commitments, and sound international practices of the industry to insure either proper abandonment of the facilities located in the project areas or relinquishment to the appropriate authorities as required under the license contract.
 19. Pluspetrol shall present a status summary of all issues and outstanding conditions relating to environmental and construction permits for all aspects of the project, and shall make public the summary and all official comments relating to the issuance of such permits. (Prior to first disbursement)
 20. Pluspetrol shall show evidence of insurance coverage satisfactory to the Inter-American Development Bank adequate to cover any environmental liability, species recovery and the cost of damage to local communities, caused by the project and occurring during, the

- construction and operation and/or closure phases of the project. (Prior to first disbursement)
21. Pluspetrol shall provide evidence that it has acquired a performance bond or other insurance coverage totaling \$25 million to cover the costs related to any remediation or recovery plan, including species recovery, the requirement and scope of which would be determined by an independent party acceptable to the Inter-American Development Bank, resulting from any project activity occurring during the construction, operation and/or closure phases of the project. (Prior to First Disbursement)
 22. Pluspetrol shall submit a report explaining methods of controlling shipping traffic, docking and transport time, requirements on ballast water exchange and methods to enforce such ballast exchange for the marine terminal facility. (Prior to disbursement)
 23. Pluspetrol shall show evidence of the existence of a funding mechanism, satisfactory to the Inter-American Development Bank, adequate to provide for external independent monitoring of the project with the participation of civil society, on a semi-annual basis through the life of the project, sufficient to ensure the formulation and public issuance of environmental compliance reports with respect to all aspects of the project. (Prior to disbursement, with the receipt of semi-annual compliance reports through the term of the financing)
 24. Pluspetrol shall cooperate with the GOP in the preparation of a report to the Inter-American Development Bank summarizing measures to be taken by the GOP with respect to the following:
 - a. Deployment of witness monitors composed of government experts and community monitors to report on activities in the Nahua-Kugapakori Reserve;
 - b. Commenced measures to elevate the N-K Reserve to the highest protection degree to better protect the rights of its inhabitants;
 - c. Institute immediate action to ensure GOP compliance with International Labor Organization Convention 169 (to which Peru is a signatory) regarding prior informed consent of indigenous peoples affected by the Project;
 - d. Approval of, and execution of the plan to distribute compensation to eligible groups and individuals of all affected areas, including Paracas;
 - e. Establishment and execution of programs to fund conservation and social development projects including a trust fund for the affected N-K Reserve Indigenous groups;
 - f. Establishment and execution of a trust fund for mitigation and preservation activities in the Paracas Marine Reserve and wetlands;
 - g. Evidence demonstrating GOP commitment to address future and existing NGO concerns relating to the project;
 - h. Development of revised criteria for future extractive industries in protected areas, and criteria for the cleanup of Paracas Bay.
 25. Pluspetrol shall make all reports required within the conditions set forth above simultaneously available to the public, both in print and by posting on the internet, in Spanish and in English, at the time of the submission of such reports to the Inter-American Development Bank.